



FEDERAL ELECTION COMMISSION
WASHINGTON, D C 20463

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Stephen E. Chaudet
Treasurer
Lockheed Martin Employees' Political Action
Committee
1550 Crystal Drive
Suite 300
Arlington, VA 22202

APR 5 2006

RE: MUR 5721

Dear Mr. Chaudet:

On March 21, 2006, the Federal Election Commission found that there is reason to believe the Lockheed Martin Employees' Political Action Committee and you, in your official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5); 434(b)(2)-(4), (6)(B)(v), and 11 C.F.R. § 104.3(a), (b), provisions of the Federal Election Campaign Act of 1971, as amended (the "Act"). These findings were based upon information ascertained in the normal course of carrying out its supervisory responsibilities. *See* 2 U.S.C. § 437g(a)(2). The Factual and Legal Analysis, which more fully explains the Commission's findings, is attached for your information.

You may submit any factual or legal materials that you believe are relevant to the Commission's consideration of this matter. Please submit such materials to the General Counsel's Office within 15 days of your receipt of this letter. Where appropriate, statements should be submitted under oath. In the absence of additional information, the Commission may find probable cause to believe that a violation has occurred

26044143825

Requests for extensions of time will not be routinely granted. Requests must be made in writing at least five days prior to the due date of the response and specific good cause must be demonstrated. In addition, the Office of the General Counsel ordinarily will not give extensions beyond 20 days.

If you intend to be represented by counsel in this matter, please advise the Commission by completing the enclosed form stating the name, address, and telephone number of such counsel, and authorizing such counsel to receive any notifications and other communications from the Commission.

This matter will remain confidential in accordance with 2 U.S.C. §§ 437g(a)(4)(B) and 437g(a)(12)(A), unless you notify the Commission in writing that you wish the investigation to be made public.

For your information, we have attached a brief description of the Commission's procedures for handling possible violations of the Act. If you have any questions, please contact Jin Lee, the attorney assigned to this matter, at (202) 694-1650.

Sincerely,



Michael E. Toner
Chairman

Enclosures
Factual and Legal Analysis
Procedures
Designation of Counsel Form

26044143826

FEDERAL ELECTION COMMISSION

FACTUAL AND LEGAL ANALYSIS

RESPONDENTS: Lockheed Martin Employees' PAC; **MUR:** 5721
Stephen E. Chaudet, in his official
capacity as Treasurer

I. INTRODUCTION

This matter originated with information ascertained by the Commission in the ordinary course of its supervisory responsibilities. Based upon such information and the analysis below, there is reason to believe that Lockheed Martin Employees' PAC ("LMEPAC") and Stephen E. Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5), 434(b)(2)-(4), (6)(B)(v) and 11 C.F.R. § 104.3(a), (b).

II. FACTUAL AND LEGAL ANALYSIS

Based upon the factual and legal analysis in the attached Audit Report, Attachment 1, the Commission finds reason to believe that LMEPAC and Stephen E. Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5), 434(b)(4), (6)(B)(v) and 11 C.F.R. § 104.3(b) by failing to accurately account for and report certain disbursements.

As stated in the Audit Report, LMEPAC failed to accurately disclose operating expenditures in its reports filed with the Commission as required by 2 U.S.C. § 434(b). *See* Attachment 1 at 6. The false disclosures resulted from an embezzlement scheme perpetrated by Kenneth Phelps, who was LMEPAC's Assistant Treasurer from August 11, 1997 to February 24, 2004. *See id.* Although the Committee's reporting errors stem from Phelps' embezzlement of committee funds, the Committee nevertheless violated the Act when it filed the resulting inaccurate reports. Under the Act, LMEPAC, through its Treasurer, was required to account for disbursements and report them to the Commission. 2 U.S.C. §§ 432(c)(5), 434(b)(4), (6)(B)(v); 11 C.F.R. § 104.3(b). Commission regulations allow an assistant treasurer to act in place of a

2604143827

treasurer in the event of a vacancy or if the treasurer is unavailable. 11 C.F.R. § 102.7.

Ultimately, however, a committee treasurer is the person responsible for accounting for disbursements and reporting them to the Commission. 2 U.S.C. §§ 432(c)(5); 434(b)(4)(H)(v), (6)(B)(v).

In particular, the record in this matter suggests that LMEPAC officials had prior knowledge that the Committee's internal controls to safeguard its assets were deficient and could have prevented Phelps' embezzlement. After conducting a routine internal audit, which covered the period of January 1999 through December 2001, Lockheed Martin Corporation issued its Corporate Internal Audit Report ("LM Report") in June 2001 and found that LMEPAC's internal controls of financial assets were lacking. Attachment 1 at 6. The LM Report recommended that the responsibility for reconciling cash accounts be assigned to an employee who is independent of LMEPAC's receipts and disbursements. *See id.*

In response, LMEPAC officials decided to outsource the administration of LMEPAC to an outside vendor. Attachment 1 at 7. However, LMEPAC officials assigned Phelps the responsibility of segregating his own duties and selecting a vendor, despite the fact that LMEPAC knew that Phelps had too much responsibility and that the lack of review of his work posed a weakness to the Committee's internal controls. *See* Attachment 1 at 6-7. Compounding the problem, LMEPAC failed to provide any oversight of Phelps and simply relied upon his assurances that outsourcing had been completed. Attachment 1 at 7. As a result, the responsibility to reconcile LMEPAC's bank accounts and to process receipts and disbursements were left in the hands of one person, Mr. Phelps, who used these powers to perpetrate his embezzlement scheme.

26044143828

Finally, based upon information ascertained by the Commission in the ordinary course of its supervisory responsibilities, there is reason to believe that LMEPAC violated 2 U.S.C. § 434(b)(2), (3) and 11 C.F.R. § 104.3(a) by failing to disclose certain receipts in its 2003 December Monthly Report, 2003 Year End Report, and 2004 April Quarterly Report, which totaled \$194,196.67. The Federal Election Campaign Act of 1971, as amended, requires political committees to disclose receipts in accordance with 2 U.S.C. § 434(b), including the total amount of all receipts and itemization of receipts in excess of \$200. *See* 2 U.S.C. § 434(b)(2), (3); 11 C.F.R. § 104.3(a). LMEPAC's amended 2003 December Monthly Reports, 2003 Year End Reports, and 2004 April Quarterly Reports revealed that the Committee failed to disclose \$194,196.67 in receipts for the covered periods.

III. CONCLUSION

Accordingly, the Commission finds reason to believe that LMEPAC and Stephen E. Chaudet, in his official capacity as Treasurer, violated 2 U.S.C. §§ 432(c)(5), 434(b)(2)-(4), (6)(B)(v), and 11 C.F.R. § 104.3(a), (b).

Attachment:

1. Audit Report

26044143829